

Message Text

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ACTION PM-04

INFO OCT-01 ARA-06 ISO-00 CIAE-00 INR-07 NSAE-00 NSC-05

SP-02 SS-15 MC-02 TRSE-00 OMB-01 IGA-01 EB-07 DODE-00

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FM AMEMBASSY BRASILIA

TO SECSTATE WASHDC 2604

INFO USCINCSO

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C O N F I D E N T I A L BRASILIA 10051

DEPARTMENT PASS TO DEPARTMENT OF DEFENSE (ISA/IA/DSAA)

E.O.11652: GDS

TAGS: MASS, BR

SUBJECT: FY 1976 AND FY 1977 MILITARY SECURITY ASSISTANCE

PROGRAM FROM BRAZIL

REF: STATE 258167

1. FOLLOWING ARE MISSION RESPONSES TO INFORMATION
REQUESTED IN PARA 5 OF THE REFERENCE.

A. HOST COUNTRY WILL ACCEPT AND CARRY OUT CREDIT AGREEMENT
AT LEVEL INDICATED.

B. PRIORITY	ITEM	US\$ MILLION
1	F-5 PURCHASE	55.0
2	MK-37 TORPEDOES	2.5
3	TACTICAL CONTROL RADAR	2.5
	TOTAL US\$	60.0

THE F-5 PURCHASE WAS CONCLUDED THREE YEARS AGO AND THE 55
MILLION DOLLARS WHICH ACCOUNTS FOR OVER 90 PERCENT OF THE
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CREDIT RECOMMENDED FOR FY 1976 REPRESENTS ONLY A PORTION

OF THE TOTAL FINANCING OF THIS PURCHASE.THE TORPEDOES FALL WITHIN THE FRAMEWORK OF RECURRING AMMUNITION PROCUREMENT. THE 2.5 MILLION DOLLARS FOR TACTICAL CONTROL RADAR REPRESENT ONE PORTION OF THE EXPENDITURES OF AN ONGOING EFFORT SPREAD OVER SEVERAL YEARS TO UPGRADE AIR TRAFFIC CONTROL.

C. CREDIT WILL BE UTILIZED TO SUPPORT US APPROVED FORCE OBJECTIVES.

D. SINCE BRAZIL IS IN THE PROCESS OF PURCHASING MILITARY EQUIPMENT FOR FORCE MODERNIZATION, US CREDIT ASSISTS SIGNIFICANTLY IN ASSURING THAT US MANUFACTURED MILITARY EQUIPMENT IS COMPETITIVE WITH THAT OF THIRD COUNTRY SUPPLIES, THUS FURTHER CONTRIBUTING TO OBJECTIVES NOTED IN PARAGRAPH F BELOW.

E. THE MAP CREDIT AND TRAINING PROGRAMS COMPLEMENT EACH OTHER IN DECREASING OR ELIMINATING DEFICIENCIES IN CERTAIN PRIORITY AREAS OF THE MATERIAL,PROFESSIONAL AND TECHNICAL CAPABILITIES OF THE BRAZILIAN ARMED FORCES.

F. THE FMS CREDIT PROGRAM FAVORABLY INFLUENCES THE ACQUISITION OF US EQUIPMENT AND RELATED TECHNOLOGY AND THUS HELPS TO MAINTAIN THE US AS THE PREDOMINANT FOREIGN MILITARY INFLUENCE IN BRAZIL IN TERMS OF MILITARY EQUIPMENT, TECHNOLOGY AND DOCTRINE. US EQUIPMENT ACQUISITIONS ALSO ENHANCE COMPATIBILITY OF INTERESTS AND ACTIVITIES AND HELP TO ENSURE THAT BRAZILIAN AUTHORITIES CONTINUE TO VIEW COUNTRY AND REGIONAL SECURITY OBJECTIVES AS BEING PARALLEL TO THOSE OF THE UNITED STATES. FMS CREDIT HELPS GIVE CREDIBILITY TO OUR COMMITMENT TO A MATURE AND FORTHCOMING RELATIONSHIP WITH A COUNTRY OF PRESENT AND GROWING IMPORTANCE. FINALLY FMS CREDIT, AS PRINCIPAL FACET OF SECURITY ASSISTANCE PROGRAM, IS MAJOR TOOL FOR PRESERVING OUR ACCESS TO AND INFLUENCE WITH MILITARY, PREDOMINANT NATIONAL LEADERSHIP GROUP.

(G) FMS CREDIT PURCHASES BY BRAZIL ARE BEING USED FOR THE PURPOSE OF REASONABLY MODERNIZING THE BRAZILIAN FORCE STRUCTURE IN TERMS OF REPLACING OBSOLETE MILITARY EQUIPMENT WHICH IS CONFIDENTIAL

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COSTLY TO OPERATE AND MAINTAIN. THERE IS NO EVIDENCE THAT FMS CREDIT SALES TO BRAZIL, EITHER IN TERMS OF SIZE OR TYPE OF EQUIPMENT, STIMULATE OR CONTRIBUTE TO AN ARMS IMBALANCE OR AN ARMS RACE IN THE REGION.

(H) FINANCIAL TERMS AND CREDIT ARRANGEMENTS HAVE BEEN MAJOR FACTORS IN BRAZIL'S MAJOR MILITARY EQUIPMENT PURCHASE DECISIONS. THIRD COUNTRY SUPPLIES WILL PROBABLY CONTINUE TO

MAKE ATTRACTIVE OFFERS AND THE GOB WILL CONTINUE TO SEEK FINANCIAL ARRANGEMENTS MOST FAVORABLE TO IT. ACCORDINGLY, IT IS CONSIDERED THAT THE POSSIBILITIES OF INFLUENCING THE GOB TO PURCHASE FROM THE US ARE BEST ENHANCED BY COMPETITIVE USG CREDIT TERMS.

(I) ALTHOUGH BRAZIL IS CURRENTLY FACED WITH DIFFICULT BALANCE OF PAYMENTS PROBLEMS, WE DO NOT BELIEVE THAT THE PROPOSED CREDIT WILL PLACE AN UNDESIRABLE BURDEN ON ITS FOREIGN EXCHANGE RESOURCES. WE BELIEVE THAT THE CURRENT BALANCE OF PAYMENTS WEAKNESS IS OF A TEMPORARY NATURE AND THAT THE MONETARY AUTHORITIES HAVE THE MEANS AND THE DETERMINATION TO KEEP THE SITUATION WITHIN MANAGEABLE BOUNDS. ALTHOUGH BRAZIL HAS A SIZABLE FOREIGN DEBT OUTSTANDING (ESTIMATED AT \$21 BILLION AT THE END OF 1974), THE AMORTIZATION SCHEDULE OF THIS DEBT IS SUCH THAT REPAYMENTS SHOULD NOT PRESENT A PROBLEM DURING THE FORESEEABLE FUTURE.

(J) BRAZIL IS MAKING NO OTHER ARMS PURCHASE FROM THE US WHICH ARE RELEVANT TO THE PROPOSED CREDIT FOR FY 1976. FURTHER, THE MISSION IS NOT AWARE OF ANY NEW PURCHASES FROM THIRD COUNTRIES FOR EITHER CASH OR CREDIT WHICH COULD AFFECT THE PROPOSED CREDIT LINE. IN THE RECENT PAST, OF COURSE, BRAZIL HAS PURCHASED FRIGATES AND SUBMARINES FROM THE UK AND MINESWEEPERS FROM THE FRG ON CREDIT. IT SHOULD BE NOTED, HOWEVER, THAT ALL MAJOR MILITARY CREDIT ARRANGEMENTS RECEIVE CLOSE SCRUTINY FROM AND REQUIRE THE APPROVAL OF THE BRAZILIAN MINISTRIES OF FINANCE AND PLANNING. THE IMPACT OF THE PETROLEUM CRISIS HAS INCREASED BRAZIL'S BALANCE OF PAYMENTS DEFICIT. AS A RESULT, THE GOB HAS RECENTLY TAKEN A NUMBER OF MEASURES TO REDUCE EXPENDITURES ABROAD. FOR EXAMPLE, WE HAVE BEEN INFORMED THAT THE NAVY WILL NOT PURCHASE ADDITIONAL DESTROYERS WHICH THEY HAD PREVIOUSLY INTENDED TO

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ACQUIRE FROM THE US. THE AIR FORCE HAS ADVISED US THAT A PRIMARY REASON FOR NOT CONCLUDING A SUPPLY SUPPORT ARRANGEMENT FOR THE F-5'S IS ECONOMIC AUSTERITY. THE ARMY, WHICH HAS NOT USED FMS CREDIT RECENTLY, IS CUTTING BACK ON MILITARY MANEUVERS AND A GENERAL CUTBACK OF 50 PER CENT HAS BEEN DIRECTED IN THE USE OF PETROLEUM PRODUCTS. THIS GENERAL PHILOSOPHY OF REDUCING EXPENDITURES OF FOREIGN EXCHANGE IN THE MILITARY AREA IS EXPECTED TO CONTINUE OVER THE IMMEDIATELY FORESEEABLE FUTURE AND WILL AFFECT DEFENSE SALES AND FMS CREDIT USE AS WELL AS OUR MAP TRAINING PROGRAM.

CRIMMINS

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